OIOS
Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2016/098

Audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees

Overall results relating to the effective management of the UNHCR vehicle fleet were initially assessed as partially satisfactory. Implementation of seven important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

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AUDIT REPORT

Audit of the arrangements for fleet management at the
Office of the United Nations High Commissioner for Refugees

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees (UNHCR).

2.   In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3.   As at 31 October 2015, UNHCR had 6,426 vehicles spread across different locations in the world with an acquisition cost of $234.6 million, representing 70 per cent of the total cost of UNHCR fixed assets. Forty-five per cent of the vehicles (2,895 vehicles) were under the custody of partners through "Right of Use Agreements". Eighty per cent of the fleet (5,159 vehicles) consisted of light vehicles. The average age of the fleet was four years. From 1 January 2014 to 31 October 2015, UNHCR spent $234.3 million on its fleet, including on vehicle acquisitions ($69.2 million, or 29 per cent of the fleet spending), fuel ($93.2 million, or 40 per cent), and vehicle maintenance and repair ($71.9 million, or 31 per cent).

4.   Fleet management activities and vehicle acquisitions were decentralized at UNHCR until the end of 2013. The guidance on fleet management was dispersed, and there was lack of an integrated fleet strategy until the implementation of the Global Fleet Management (GFM) model in January 2014. GFM centralized at UNHCR headquarters the following fleet management functions: (a) acquisition of light vehicles under a rental programme; (b) standardization and management of vehicle pipeline and stocks (acquisitions, fitting, and delivery) in three main UNHCR warehouses located in Belgium, Thailand and United Arab Emirates; (c) disposal of all vehicles of UNHCR fleet; (d) provision of a global insurance package to complement the third party liability insurance contracted locally by country operations, and management of insurance claims under this package; and (e) supply of a Vehicle Tracking System (VTS) and fleet usage monitoring functionalities. GFM excluded from its initial scope the acquisition of non-light vehicles (i.e., trucks, buses, armored vehicles, and other specialized motorized equipment), as well as fuel management and maintenance and repair. However, in line with the 2014-2018 Fleet Strategy, GFM was intended to gradually incorporate by 2018 the initially excluded components, with work ongoing in this regard at the time of the audit.

5.   The Asset and Fleet Management Section (AFMS) under the Supply Management Logistics Service of the Division of Emergency, Security and Supply (DESS) was responsible for: (i) management of the UNHCR fleet of vehicles globally; (ii) fleet policy development and compliance monitoring; and (iii) implementation of GFM organization-wide. AFMS was headed by a Head of Section at the P-5 level and staffed with 7 Professional staff, 16 General Service staff, and 4 consultants.

6.   UNHCR field operations were responsible at the country level for: (i) fleet planning, including determining the vehicle needs, and requesting the replacement and disposal of vehicles; (ii) ensuring correct day-to-day use and control of all vehicles in compliance with existing asset and fleet policies; and (iii) implementing adequate management and controls over fuel and vehicle maintenance and repair locally.

7.   Comments provided by UNHCR are incorporated in italics.

II.   OBJECTIVE AND SCOPE

8.   The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding **the effective management of the UNHCR vehicle fleet.**

9.   The audit was included in the OIOS 2015 risk-based internal audit work plan for UNHCR because of the risks associated with the implementation of the new centralized GFM, the significant financial value of vehicles owned by UNHCR and their importance in supporting UNHCR operations.

10.   The key controls tested for the audit were: (a) project management capacity; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a)   **Project management capacity** - controls that provide reasonable assurance that there is adequate management capacity to implement GFM, including: (i) an adequate organizational structure equipped with sufficient and competent human resources; (ii) sufficient and well managed financial resources; and (iii) appropriate strategies, systems, and indicators to plan, lead, implement and monitor fleet management activities organization-wide.

(b)   **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide fleet management activities; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

11.   The key controls were assessed for the control objectives shown in Table 1.

12.   OIOS conducted the audit from November 2015 to March 2016. The audit covered the period from 1 January 2014 to 31 October 2015. The review included fleet management activities undertaken by AFMS at UNHCR headquarters in Budapest and by the UNHCR Representations in the following 11 country operations that held significant fleets: Afghanistan, Algeria, Cameroon, Central African Republic (CAR), Chad, the Democratic Republic of the Congo (DRC), Djibouti, Liberia, Myanmar, South Sudan and Tanzania. Country specific issues were reported at the country level and included in this audit report to provide examples of institutional control weaknesses in fleet management practices. The audit assessed the implementation of GFM and how the model addressed or was in the process of addressing institutional control weaknesses.

13.   OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III.   AUDIT RESULTS

14.   The UNHCR governance, risk management and control processes examined were initially assessed as **partially satisfactory**[1] in providing reasonable assurance regarding the **effective**

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[1] A rating of **"partially satisfactory"** means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

management of the UNHCR vehicle fleet. OIOS made seven recommendations to address issues identified in the audit.

15.   While some actions had been implemented through GFM to address identified weaknesses in fleet management, there was still a need for UNHCR to: (a) strengthen fleet planning by supporting country operations in their fleet planning and verifying the preparation of country-level fleet plans; (b) further strengthen the monitoring of GFM performance; (c) define and implement procedures and systems to support the implementation of the vehicle rental programme; (d) develop guidance on vehicle maintenance and repair contracts and related monitoring activities; (e) strengthen controls over fuel management in country operations; (f) improve the policy framework and functioning of the global insurance scheme; and (g) implement adequate guidance, procedures and functionalities within the UNHCR enterprise resource planning system for identifying all costs of vehicles subject to capitalization.

16.   The initial overall rating was based on the assessment of key controls presented in Table 1. The final overall rating is **partially satisfactory** as implementation of seven important recommendations remains in progress.

Table 1
Assessment of key controls

| Business objective | Key controls | Control objectives | | | |
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of the UNHCR vehicle fleet	(a) Project management capacity	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Project management capacity

Vehicle fleet planning required strengthening

17.   According to UNHCR policies and guidance on fleet management, AFMS and Regional Bureaux are required to verify that UNHCR offices determine the size of their vehicle fleet by linking it to their operational requirements, based on a needs and cost assessment. In this regard, the offices should also take into consideration the vehicle disposal plan and vehicle usage information obtained from VTS. The offices are required to designate a Transportation Manager to act as the AFMS counterpart for all fleet related issues and to implement GFM procedures.

18.   A review of the fleet planning process in the UNHCR Representations in DRC, Chad, CAR, South Sudan and Djibouti, which together held 67 per cent of the total number of vehicles in the 11 country operations reviewed, indicated that these Representations did not take into consideration operational requirements and actual fleet usage in the process. Fleet plans and/or fleet needs and cost assessments were also not available. The VTS reports for Chad and CAR, for example, indicated low vehicle usage, which was not considered by the respective Representations for their planning purposes. In these two countries, 98 per cent of the vehicles had been used 50 per cent or less of their usable time

during three consecutive months in the dry season period, out of which 28 per cent of vehicles in Chad and 23 per cent of vehicles in CAR had been used only 10 per cent or less of the usable time. In DRC, Chad and CAR, security constraints, reduced number of drivers, and unavailability of other alternatives of transportation led the Representations to allocate vehicles to international staff, which increased the size of the fleets.   However, the operational and security requirements were not subsequently revisited to ensure that the fleets were adequate and right-sized. For example, DRC became a family duty station on 1 January 2015, but international staff continued using office vehicles. In Chad, vehicles assigned to staff were only used after work hours, and available shuttle services were not maximized. In CAR, the Representation received eight pick-ups in 2014, which were left unused or with minimum use because the UNHCR Field Security Service advised against the use of these types of vehicles in the country due to the threat of theft by rebels. Also in CAR, the Representative had three vehicles assigned for his own use, which was contrary to the UNHCR Policy on the Use of Vehicles that states that the Representative should have one designated driver and vehicle.

19.   A comparison of the light vehicle fleet in all locations organization-wide (excluding vehicles in the custody of partners) with the existing levels of staff as at 31 October 2015 indicated that in 24 countries there were more vehicles than the number of international staff and drivers together (587 vehicles compared to 394 drivers and international staff).

20.   Eight country operations (Afghanistan, Algeria, Cameroon, DRC, Djibouti, Liberia, Myanmar and Tanzania) had not designated a Transportation Manager or had designated administrative staff without specific fleet management skills or training to act as the AFMS counterpart for fleet related issues.   For example in DRC, where the Representation had a fleet of 380 vehicles, a Supply Assistant liaised with AFMS only for the Branch Office Kinshasa, and there were no dedicated staff to deal with fleet management issues in other UNHCR locations in the country. In CAR, even though a Transportation Manager had been designated, the Programme and Administration Units separately communicated with AFMS and ordered vehicles independent of each other, without coordination.

21.   The issues mentioned above could have been avoided if AFMS had supported country operations more pro-actively in: (a) determining and validating the country operations' vehicle needs based on objective criteria for fleet planning; (b) verifying the existence of country-level fleet plans, in combination with vehicle disposal plans; and (c) working with country operations to designate Transportation Managers and providing objective guidance in terms of the expected role and profile required for the function. OIOS concluded that the fleet size in many UNHCR operations was not commensurate with actual requirements which resulted either in shortage or excess number of vehicles.

> **(1) The UNHCR Division of Emergency, Security and Supply should: (a) more actively support country offices in the determination of the size of their vehicle fleet based on objective criteria; and (b) in coordination with Regional Bureaux, define procedures for the review of country fleet plans and for the appointment of Transportation Managers.**
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> *UNHCR accepted recommendation 1 and stated that GFM had been introduced in 2014 to address gaps in fleet management and, being a 5-year plan, was still in the process of addressing the gaps, with implementation targeted by the end of 2018. UNHCR further stated that as a decentralized organization the Representatives in the field had autonomy to determine the fleet composition and size. AFMS, as an headquarters support function, had limited authority over decisions made in the field, but could provide guidance and training to increase awareness of fleet management's impact on the operations, particularly on the finances (budget) and operational effectiveness. To that end, AFMS had developed and was in the process of rolling out a training programme, had developed a Fleet Handbook, and was introducing FleetWave®. AFMS was proposing to improve the 2016 data collection on fleet needs from the field for the 2017 planning by issuing guidance as an annex to the*

> *year-end instructions. Inputs would be reviewed together with the Bureaux prior to processing of requests. Also, guidance and Terms of Reference would be shared with the field on the formal establishment of Transportation/Fleet Managers according to the size of the fleet.* Recommendation 1 remains open pending receipt of evidence that AFMS and Bureaux have taken steps to: (a) effectively support country operations in their fleet planning processes with the provision of objective criteria; (b) verify the existence of country-level fleet plans; and (c) ensure that Transportation Managers with the necessary skills have been designated where required.

There was a need to further strengthen the monitoring of GFM performance

22.   The UNHCR 2014-2018 Fleet Strategy established high level goals for improving the efficiency of the UNHCR fleet, improving road safety, and minimizing the environmental impact of UNHCR vehicles. According to the job descriptions of AFMS management functions, AFMS should establish performance indicators and use available data to analyze the performance of global fleet management.

23.   AFMS reported monthly on GFM activities and released these reports to Senior Management. They were also posted on the UNHCR Intranet. The monthly reports provided information on vehicle stocks, number of vehicles under the rental programme, tracking systems installed, expenditure and revenues, incidents reported and related insurance claims, asset sales, and training activities. In 2015, AFMS awarded a contract to an external entity to assess the performance of GFM after one year of its implementation. The study concluded that GFM had performed well, using indicators such as fleet size, average fleet age, procurement cost, and disposal revenue. Despite their merits, these indicators relied on the limited information available, and provided only a limited assessment of the performance of GFM and the extent of implementation of the strategic fleet management goals.

24.   One of the main functions of AFMS was to supply vehicles to UNHCR offices. However, AFMS was not able to provide information on the extent to which it had met the demands of the different offices and whether it had done so in a timely manner. This was mainly due to the considerable variation between projections submitted by country operations, and actual confirmed needs and orders placed which were influenced by emergencies, budget availability, security factors, etc. Country operations also did not inform AFMS about the desired and confirmed dates for vehicle delivery, and were changing requirements frequently through email and telephone communications. The ordering of vehicles had no apparent linkage to country fleet plans and changes to orders were not tracked by AFMS. In the global insurance component of GFM, AFMS had defined reporting timelines for itself, for the insurance broker and for the country operations, but was not monitoring and reporting on these timelines. For the field related data, a GFM scorecard had been developed with indicators on the usage of vehicles, maintenance and repair, and fuel consumption, but had not been implemented because fleet data available in the field was dispersed, presented in different formats, and with different levels of detail.

25.   The Operational Guidelines for the Management and Use of UNHCR vehicles, issued on 1 July 2015, provided generic guidance for data collection in the field in specific fleet management activities (e.g., fuel management and maintenance and repair) and made reference to systems available to collect this data. However, such systems had not been rolled out or had limited usage. As a result, UNHCR could not adequately assess the efficiency and effectiveness of GFM and monitor its performance.

> **(2) The UNHCR Division of Emergency, Security and Supply should strengthen performance monitoring of global fleet management by supplementing existing targets and performance indicators and establishing a roll out plan for the implementation of standardized data collection tools.**
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> *UNHCR accepted recommendation 2 and agreed that Key Performance Indicators (KPIs) were an*

important part of fleet management, but their introduction had to be considered carefully to ensure that KPIs were relevant and would drive the intended behaviour. The data collection and reporting on KPIs should be supported by software (where practical) and they should be measured frequently and be available for management as an operational tool. UNHCR further stated that a set of KPIs was agreed, had been included in the fleet training, and would be further expanded. AFMS was working on including KPI reports into FleetWave® and rolling out the system to all major field operations coupled with instructions on the use of the software to enable standardized data collection. Recommendation 2 remains open pending receipt of evidence of the development and implementation of supplementary key fleet management performance targets with an effective link to the Fleet Strategy and of the roll out plan for standardized data collection tools.

B.   Regulatory framework

<u>The vehicle rental programme procedures and systems required strengthening</u>

26.   The policy on the implementation of GFM requires that all light vehicles acquired after 1 January 2014, whether in use by UNHCR or by partners through a "Right of Use Agreement", are placed under a rental programme. The rental charges are set as an annual percentage of the total vehicle acquisition cost with the objective of self-funding a pool of light vehicles, and should be reviewed over time. AFMS should bill rental charges for new vehicles starting on the month when the vehicles were fitted out for delivery to the country operations, and should calculate rental charges at the beginning of each year for subsequent years while the vehicles are in service. As per the 2014-2018 Fleet Strategy, armored vehicles and trucks should also be incorporated in the rental programme.

27.   AFMS communicated the 2016-2020 projections for the annual rentals to country operations on 24 November 2015. They predicted a downward adjustment of rental charges, and presented a forecast of reduction in rental levels. Using these projections, OIOS reviewed the total rental cost to country operations of five vehicles put under the rental programme in 2014 over their five years of useful life, and observed that these vehicles would have a rental cost 11 to 60 per cent higher than their acquisition cost. Nonetheless, the rental programme allowed country operations to split the cost of the investment in light vehicle acquisitions over the vehicles' useful life, and there was an expectation that the costs would further decrease. However, the forecast of rentals had not been validated by a vetting process to provide an overview and formal decisions on rental levels, type and pricing of cost components of the rental programme.

28.   AFMS had not defined and clearly communicated all cost components of rental charges to country operations and had increased some of the cost components compared to their respective acquisition cost. In particular, AFMS did not specify that the rental charges comprised, in addition to the vehicle acquisition cost, the costs of transportation from the manufacturer to the UNHCR warehouse, custom clearance and storage, even though these costs added $4,314 to the total rental charge per vehicle over five years (at 2015 pricing levels). Also, AFMS charged a standard cost of $3,000 for the transportation when for three vehicles that OIOS reviewed the real cost was only $1,625, and annual VTS charges were 10 per cent higher than their acquisition cost. In addition, AFMS did not reflect discounts and rebates obtained from the manufacturer in the vehicle acquisition cost used as the basis for the calculation of the rental cost, since it did not know this information upfront. All this considered, OIOS review of the 2015 rental charge calculations for a sample of five vehicles showed an overcharge of the rental cost of $10,444 compared to the effective acquisition cost of the rental components.

29.   Furthermore, AFMS billed country operations manually for rental charges. Despite the fact that some checks and controls were in place, the calculation and collection of a total of $22.3 million for

rentals in 2015, involving 83 locations, was performed by one General Service staff in AFMS using Excel spreadsheets. This was subject to risk of error.

30.   The issues above occurred because of omissions in GFM policies and procedures related to the vehicle rental programme, in particular in relation to the pricing methodology, the review of standard costs, and the decision-making process on rental charges. FleetWave®, the new UNHCR fleet management system, had also not been fully developed to support the calculation of rentals (in particular for yearly renewals) and there was no interface between this system and the Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, to automate the calculation and billing processes. This resulted in lack of transparency and operational inefficiencies, with risk of delayed and/or incorrect billing of rental charges to country operations.

31.   In Afghanistan, vehicle requirements were determined based on security needs but the 2015 requirements were not met due to budgetary constraints. Thirty-nine vehicles (69 per cent of the Representation's armored vehicle fleet) were five years or older, with the oldest dating back to 2004. Unlike light vehicles, armored vehicles were not provided to country operations under the GFM rental programme and therefore continued to require a higher initial investment by country operations to acquire these vehicles. AFMS had not yet made a final decision for the inclusion of armored vehicles and trucks under the GFM rental programme, or defined an alternative model for the supply of these vehicles to country operations.

> **(3) The UNHCR Division of Emergency, Security and Supply should: (a) establish a clear pricing methodology for the different cost components of vehicle rental charges; (b) establish a process for decision making on rental charges; (c) implement an automated process for billing rental charges; and (d) revise the feasibility of including armored vehicles and trucks under the rental programme, or define an alternative model for the supply of these vehicles to country operations.**
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> *UNHCR accepted recommendation 3 and stated that: (a) GFM was based on a self-financing internal cost-recovery model, with income from vehicle rent, sale of second hand vehicles, and other charges being used only to purchase new replacement vehicles, accessories, and pay the GFM cost. If over time a surplus was generated, this would be counteracted by lower rental costs and decreased charges as well as enhanced services. AFMS reviewed the pricing methodology and issued a new price list, which clearly specified the different cost components; (b) rental charges were reviewed annually based on projected rentals, income and costs, and approved by the Director, DESS; (c) AFMS had been working with the Division of Financial and Administrative Management (DFAM) on an automated process for the billing of rental charges, and envisaged to be implemented with the MSRP upgrade in 2017; and (d) a review of the feasibility of including armored vehicles and trucks under the rental programme was underway and would be completed by the end of 2016.* Recommendation 3 remains open pending receipt of: (a) documentation related to the pricing methodology underlying the revised price list for the rental programme; (b) documentation formalizing the process for decision making on rental charges; (c) evidence of implementation of an automated process for billing of rental charges; and (d) documentation on the decisions made on the question of supply of armored vehicles and trucks to country operations.

There was a need to develop guidance on maintenance and repair contracts and related monitoring activities

32.   According to UNHCR Operational Guidelines for the Management and Use of UNHCR Vehicles, AFMS is required to support and monitor UNHCR offices regarding their planning for daily and weekly

vehicle checks and preventative maintenance with clear standards and minimum periods between services, and their recording of all maintenance and repair activities and associated costs.

33.   The audit identified systemic shortcomings related to vehicle maintenance and repair in 7 of the 11 countries reviewed. For example, the Representations in Algeria, Cameroon, South Sudan and Myanmar had ineffective systems and procedures for monitoring regular inspection and maintenance of vehicles, which led in some cases to inconsistences in the observance of recommended intervals of service. In CAR, vehicles under the custody of partners were not covered under the maintenance and repair agreement established by the Representation with the service provider. In Liberia, spare parts were unavailable due to inadequate planning and long procurement processes, and there were large quantities of dead stock in the logistics partner's workshops that had not been accounted for (estimated amount of $215,200). The Representation in South Sudan had not conducted a cost-benefit analysis to determine whether procurement of spare parts was more cost-effective when conducted by the partner as opposed to direct procurement through UNHCR. In DRC, 67 vehicles were not used due to damage and the Representation had not taken action to repair them. Further, maintenance and repair services were delivered by partners under Project Partnership Agreements or by other service providers under commercial contracts, but these contracts did not adequately detail the nature and standard of service of maintenance and repair.

34.   These shortcomings were caused by lack of technical skills in the country operations to verify maintenance and repair activities and costs, supplemented by lack of guidance on recommended standards of services and contracts, monitoring activities and recording of expenditure. AFMS was in the process of addressing some of these issues as part of the planned implementation of global maintenance and repair contracts, centralization of decisions on all repairs at AFMS, and roll out of FleetWave® to collect costs of maintenance and repair. However, the full implementation and results of the planned undertaking would expectedly fall beyond 2017, and UNHCR would possibly not be able to implement the full centralization model in all its locations due to difficulties in identifying large scale service providers. UNHCR could therefore continue to have vehicles not being adequately serviced, leading to increased risks of breakdown and safety of staff, unavailability of vehicles to operations, and high costs of maintenance and repair.

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(4) The UNHCR Division of Emergency, Security and Supply, in consultation with the Division of Financial and Administrative Management, should provide standard monitoring tools and guidance to UNHCR offices on: (a) the types of vehicle maintenance and repair services, respective standards, and key performance indicators that should be considered for local maintenance and repair contracts; and (b) recording, monitoring and reporting on maintenance and repair costs and consumables.

UNHCR accepted recommendation 4 and stated that: (a) GFM implementation had enabled the establishment of a newer light vehicle fleet which would allow substantially reducing maintenance and repair costs. Since managing spare parts and maintenance and repair facilities were not core functions in UNHCR, the organization would call for a tender for global maintenance and repair services. KPIs would be developed according to the type of service model and included in the contract with the global partner(s); and (b) the chosen commercial partner(s) would be obliged to record all charges in FleetWave® to receive payment for services. Recommendation 4 remains open pending receipt of evidence that: (a) interim guidance has been developed and provided to the field on the types of vehicle maintenance and repair services, standards and key performance indicators that should be considered for local maintenance and repair contracts; and (b) maintenance and repair costs and consumables are being collected by country operations and monitored consistently.

<u>There was a need to strengthen controls over fuel management</u>

35.   According to UNHCR Operational Guidelines for the Management and Use of UNHCR Vehicles, AFMS is required to support and monitor UNHCR offices in implementing effective controls over fuel management, including monitoring and analysis of monthly fuel consumption, definition of fuel consumption norms by type of vehicle, and investigation of consumption outside of these norms.

36.   The audit identified systemic control weaknesses in 8 out of the 11 country operations reviewed, which had spent $24.6 million on fuel from 1 January 2014 to 31 October 2015 (or 26 per cent of total UNHCR fuel expenditure), in the following areas:

   a. Fuel needs planning: The Representation in Chad had not justified standard fuel quotas based on operational requirements. The Representation in South Sudan had not conducted a cost-effectiveness analysis before authorizing partners to purchase fuel on its behalf, leading to overspending (for example, $24,552 in one transaction reviewed by OIOS for the purchase of 31,000 liters of fuel).
   b. Receipt and issuance of fuel: The Representations in CAR, Djibouti and Afghanistan had not implemented procedures for approval of fuel issuances and/or had insufficient documentation of such approvals. The Representations in Djibouti and Algeria had not implemented adequate controls over the use of pre-paid cards and fuel coupons.
   c. Fuel stocks and fuel consumption monitoring: The Representations in Afghanistan, CAR and Algeria did not measure or reconcile fuel stocks. The Representations in Cameroon, Chad, DRC, Liberia, CAR and South Sudan had not defined fuel consumption norms per vehicle, compiled fuel consumption information, and/or analyzed actual consumption against norms.
   d. Fuel infrastructure: The Representation in Afghanistan had not calibrated the fuel tanks. The Representations in Djibouti and CAR used buckets and drums to transport fuel leading to spillage and waste. The Representation in South Sudan had not formalized the conditions of use of fuel tanks and pumps with the respective owners, and had not put in place arrangements for the maintenance of fuel pumps.
   e. Safety and security: The Representations in Liberia, South Sudan and CAR kept fuel tanks in the proximity of office and staff accommodation buildings or in unsafe office premises perimeters. In addition, some fire extinguishers had expired and the safety signs were not in place. The Representations in CAR and Djibouti did not have secure arrangements for the storage of fuel to prevent unauthorized access.

37.   The GFM module for fuel management was targeted for implementation in 2017/2018, comprising fuel supply, fuel infrastructure management, and training for handling hazardous materials. In the meantime, AFMS had implemented some actions to assist country operations in fuel management, focusing mainly on monitoring of fuel consumption such as: (a) developing the fuel management module in FleetWave® and issuing instructions to support country operations in the standard collection of data on fuel consumption; (b) launching in February 2016 the GFM training programme for UNHCR country operations to train UNHCR and partners' managers and other staff, *inter alia*, on the need to monitor and control fuel; and (c) developing basic guidance on fuel monitoring in the UNHCR Operational Guidelines for the Management and Use of UNHCR Vehicles.

38.   However, FleetWave® had been rolled out only in three countries and a roll out plan to other locations, especially those with higher fuel expenditures, had not been established. It was also planned that FleetWave® would provide support only to the manual recording of fuel consumption, and consideration had not been given to complement usage of the system with standard procedures and inclusion of in-built controls for monitoring and reporting (e.g., requirement for authorized officers to provide an analysis and validation of fuel consumption outside the norms).   Even though AFMS had

plans to address the identified weaknesses in fuel management, the adequacy of such plans could not yet be assessed. Inadequate fuel management exposed UNHCR to risks of fraud, theft, waste and high costs, as well as risks for the safety and security of staff, partners and persons of concern.

> **(5) The UNHCR Division of Emergency, Security and Supply should: (a) further assess the potential of FleetWave® in assisting UNHCR offices with in-built controls over monitoring of fuel consumption; and (b) develop and implement an action plan to fully address the systemic control weaknesses identified on fuel management.**
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> *UNHCR accepted recommendation 5 and stated that: (a) FleetWave® would be developed to provide the indicated services to the highest possible level. At present, FleetWave® was capable of capturing all fuel data and analytical reports on fuel consumption based on manual input, which was the norm amongst humanitarian organizations (and the majority of commercial entities); and (b) an action plan to fully address the systemic control weaknesses identified on fuel management was under development.* Recommendation 5 remains open pending receipt of the action plan put in place for addressing systemic control weaknesses in fuel management.

There was a need to improve the policy framework and functioning of the global insurance scheme

39.   According to the UNHCR Policy and Procedures for Asset Management Boards: (a) accidents, theft, damage or loss involving UNHCR vehicles should be communicated by country offices to AFMS; and (b) decision on the repair of vehicles is delegated to AFMS. As per the UNHCR Manual, the Vehicle Insurance Fund Steering Committee should provide guidance on the implementation of global insurance and oversee the Vehicle Self-Insurance Fund to ensure that the fund is adequately used for its purpose and maintained at an acceptable level.

40.   AFMS received 364 reports of incidents from 1 January 2014 to 31 October 2015. AFMS had concerns about under-reporting of incidents and, to address this, it had promoted the global insurance on the Intranet. Due to the increased awareness, there was a significant increase (193 per cent) in the number of incidents reported from 2014 to 2015. AFMS had also made improvements in the average processing period of claims from 2014 (84 claims closed in 288 days on average) to 2015 (98 claims closed in 102 days on average).

41.   As at 31 December 2015, the Self Insurance Fund balance was $6.2 million. UNHCR also contracted externally a Subsidiary Third Party Liability Insurance as a supplement to Third Party Liability Insurance contracted at the country level, at a cost of nearly $525,000 in 2014-2015. Country operations paid $900 and $700 per vehicle in 2014 and 2015 respectively for this global insurance package. The total claim loss estimate from the claims submitted in the period of the audit was $1,117,830, and the payments made to country operations amounted to $281,317, out of which $276,686 (98 per cent) was paid from the Self-Insurance Fund. While the level of payments made through the Self-Insurance Fund was still low compared to the cost of the insurance, AFMS expected that the number of claims would increase in future. AFMS had a process in place to annually revise the level of the insurance contribution.

42.   OIOS identified the following issues in connection with the global insurance scheme:

a. AFMS did not return to the Representation in South Sudan insurance charges billed on 69 disposed vehicles during 2015, which resulted in an overcharge of $27,000. Even though UNHCR had declared that the insurance contribution was not refundable, return of contributions to country operations would be more equitable and comparable to market practices.
b. A review of a sample of 10 insurance claims indicated that: (i) two claims had been pending for approximately 10 months without justification or any follow up action; and (ii) there was

insufficient documentation on file to support final decisions and respective approvals for the claim resolution in eight cases.

c. The terms and conditions of the Self-Insurance Fund and the delegation of authority for decision-making in claims processing under the Fund had not been approved and communicated organization-wide. Further, some of the conditions applied seemed inequitable. For example, although the insurance was mandatory for all vehicles, light vehicles older than 5 years and trucks/buses older than 10 years were not eligible for claims payments. Also, vehicles under the rental programme had more favourable damage thresholds than those not under the rental programme.

d. Only information on incidents and claims processed under the Self-Insurance Fund and under the Subsidiary Third Party Liability Insurance was tracked by UNHCR, leaving aside the component of the Third Party Liability Insurance contracted at the country level.

43. The issues described above resulted because: (a) the draft global insurance policies and procedures had not been finalized and approved to clarify insurance conditions, procedures, and documentation requirements for claims processing; and (b) AFMS had not considered extending the use of FleetWave® to country operations to improve reporting on incidents. As a result, there was no assurance that the global insurance scheme was fairly and consistently applied, and that strategic decisions on insurance were adequately supported on accurate organization-wide available information on insurance coverages, costs, incidents, and payments of claims.

> **(6) The UNHCR Division of Emergency, Security and Supply should develop and implement an action plan to: (a) finalize the policy framework for the global insurance scheme; (b) improve documentation on insurance claims files to adequately reflect decisions, respective approvals, and follow-up actions; and (c) improve internal insurance tracking systems to collect and consolidate information on organization-wide insurance coverages, costs, incidents, and payment of claims.**
>
> *UNHCR accepted recommendation 6 and stated that: (a) the Administrative Instruction on the Global Insurance Scheme would be issued shortly; (b) all relevant insurance information was now uploaded to FleetWave®. The Global Vehicle Insurance Scheme was currently recording all important correspondence, decisions, approvals and actions taken concerning insurance claims; and (c) GFM was seeking further guidance to address and review the internal tracking system. Actions to address this point would be presented to the Vehicle Steering Committee. Recommendation 6 remains open pending receipt of: (a) the new Administrative Instruction that should define equitable conditions of insurance, including the reimbursement of the insurance contribution to country operations under relevant and justifiable circumstances; and (b) evidence that internal insurance tracking systems were extended to collect information on overall insurance coverages, costs, incidents, and payment of claims organization-wide.*

The asset register required enhancement to reflect the accurate value of property, plant and equipment as per the International Public Sector Accounting Standards

44. According to the UNHCR Accounting Policy for Property, Plant and Equipment, the total value of an asset, including a vehicle, should include: the asset purchase price, import duties and non-refundable taxes, deduction of discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended (namely, transport costs).

45. The UNHCR asset register did not reflect the total asset value of the vehicles as per the UNHCR Accounting Policy for Property, Plant and Equipment. For instance, five vehicles reviewed were understated in the asset register by approximately $20,495 of transport costs. The transport costs

comprised one leg from the manufacturer to the UNHCR warehouse and another from the warehouse to the country of final destination, and only one of the five assets reviewed had included the second leg of the transport in its value.

46.   Lack of guidance for asset recording and system limitations, including lack of functionalities in MSRP for identifying all costs of the assets, explained the above shortcomings. Since the asset register did not reflect the correct valuation of assets as per IPSAS, the asset value, depreciation, and net book value of vehicles could not be determined without a significant amount of manual research of acquisition documents and re-calculations, and there was also a risk of incorrect reporting in UNHCR Financial Statements.

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(7) The UNHCR Division of Emergency, Security and Supply, in consultation with the Division of Financial and Administrative Management, should implement guidance, procedures and functionalities within the Managing for Systems Resources and People system for identifying all costs of property, plant and equipment subject to capitalization, and for recording these costs accurately in the asset register.

UNHCR accepted recommendation 7 and stated that in 2016 AFMS was manually recording the second leg of transport with the assistance of the Accounts and Financial Service and that DESS had included in the business requirements for the MSRP upgrade that this information should be entered directly from the transport purchase order into the MSRP system. Further, DFAM would ensure that guidance and procedures adequately support capitalization of all relevant transport costs once the MSRP enhancement is operational. Recommendation 7 remains open pending receipt of evidence of implementation of the envisaged solution in the UNHCR enterprise resource planning system and confirmation of the accuracy of asset costs after implementation of the solution.

IV.   ACKNOWLEDGEMENT

47.   OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(*Signed*) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	The UNHCR Division of Emergency, Security and Supply should: (a) more actively support country offices in the determination of the size of their vehicle fleet based on objective criteria; and (b) in coordination with Regional Bureaux, define procedures for the review of country fleet plans and for the appointment of Transportation Managers.	Important	O	Submission to OIOS of evidence that AFMS and Bureaux have taken steps to: (a) effectively support country operations in their fleet planning processes with the provision of objective criteria; (b) verify the existence of country-level fleet plans; and (c) ensure that Transportation Managers with the necessary skills have been designated where required.	31 December 2017
2	The UNHCR Division of Emergency, Security and Supply should strengthen performance monitoring of global fleet management by supplementing existing targets and performance indicators and establishing a roll out plan for the implementation of standardized data collection tools.	Important	O	Submission to OIOS of evidence of the development and implementation of supplementary key fleet management performance targets with an effective link to the Fleet Strategy and of the roll out plan for standardized data collection tools.	31 December 2017
3	The UNHCR Division of Emergency, Security and Supply should: (a) establish a clear pricing methodology for the different cost components of vehicle rental charges; (b) establish a process for decision making on rental charges; (c) implement an automated process for billing rental charges; and (d) revise the feasibility of including armored vehicles and trucks under the rental programme, or define an alternative model for the supply of these vehicles to country operations.	Important	O	Submission to OIOS of evidence of: (a) documentation related to the pricing methodology underlying the revised price list for the rental programme; (b) documentation formalizing the process for decision making on rental charges; (c) evidence of implementation of an automated process for billing of rental charges; and (d) documentation on the decisions made on the question of supply of armored vehicles and trucks to country operations.	31 December 2017
4	The UNHCR Division of Emergency, Security and Supply, in consultation with the Division of Financial and Administrative Management, should provide	Important	O	Submission to OIOS of evidence that: (a) interim guidance has been developed and provided to the field on the types of vehicle	31 December 2017

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[2] Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

[3] Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

[4] C = closed, O = open

[5] Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
	standard monitoring tools and guidance to UNHCR offices on: (a) the types of vehicle maintenance and repair services, respective standards, and key performance indicators that should be considered for local maintenance and repair contracts; and (b) recording, monitoring and reporting on maintenance and repair costs and consumables.			maintenance and repair services, standards and key performance indicators that should be considered for local maintenance and repair contracts; and (b) maintenance and repair costs and consumables are being collected by country operations and monitored consistently.	
5	The UNHCR Division of Emergency, Security and Supply should: (a) further assess the potential of FleetWave® in assisting UNHCR offices with in-built controls over monitoring of fuel consumption; and (b) develop and implement an action plan to fully address the systemic control weaknesses identified on fuel management.	Important	O	Submission to OIOS of the action plan put in place for addressing systemic control weaknesses in fuel management.	31 March 2017
6	The UNHCR Division of Emergency, Security and Supply should develop and implement an action plan to: (a) finalize the policy framework for the global insurance scheme; (b) improve documentation on insurance claims files to adequately reflect decisions, respective approvals, and follow-up actions; and (c) improve internal insurance tracking systems to collect and consolidate information on organization-wide insurance coverages, costs, incidents, and payment of claims.	Important	O	Submission to OIOS of: (a) the new Administrative Instruction on the Global Insurance Scheme that should define equitable conditions of insurance, including the reimbursement of the insurance contribution to country operations under relevant and justifiable circumstances; and (b) evidence that internal insurance tracking systems were extended to collect information on overall insurance coverages, costs, incidents, and payment of claims organization-wide.	30 June 2017
7	The UNHCR Division of Emergency, Security and Supply, in consultation with the Division of Financial and Administrative Management, should implement guidance, procedures and functionalities within the Managing for Systems Resources and People system for identifying all costs of property, plant and equipment subject to capitalization, and for recording these costs accurately in the asset register.	Important	O	Submission to OIOS of evidence of implementation of the envisaged solution in the UNHCR enterprise resource planning system and confirmation of the accuracy of asset costs after implementation of the solution.	30 June 2017

APPENDIX I

Management Response

Management Response

Audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[6]/ Important[7]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Division of Emergency, Security and Supply should: (a) more actively support country offices in the determination of the size of their vehicle fleet based on objective criteria; and (b) in coordination with Regional Bureaux, define procedures for the review of country fleet plans and for the appointment of Transportation Managers.	Important	Yes	Chief of AFMS	End 2017	Global Fleet Management (GFM) was introduced in 2014 after Senior Management had identified gaps in this area. The GFM project was based on a 5-year plan to change fleet management in UNHCR. At the time of the audit 2 years of this plan had been implemented. Therefore DESS agrees with the auditors that gaps still exist in fleet management in UNHCR, these are systematically being addressed as the plan is being implemented. The 5-year plan is largely on-track and all major areas identified in the plan will be implemented or started to be rolled-out by the end of 2018. It is estimated that it will take 5 years to transition UNHCR from an organization without systemic fleet management to the new GFM model considering that UNHCR operates vehicles in 102 locations worldwide. UNHCR is a decentralized organization, the Representative in the field has considerable autonomy and authority over the operation. This includes

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[6] Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

[7] Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of the arrangements for fleet management at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[6]/ Important[7]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						determining the fleet composition and size. GFM is a Headquarters support function with limited authority over fleet decisions made in the field. The tools that are at the disposal of GFM are the provision of guidance and training to increase the understanding and awareness of fleet management's impact on the operations, particularly on the finances (budget) and operational effectiveness. To this end GFM has developed a blended training approach that consists of 19 e-learning modules, both in French and English, coupled with classroom training. This program was being finalized at the time of the audit. A roll-out plan is now in place. In addition to the training, GFM has developed a Fleet Handbook that is helpful in guiding the field in fleet management, and that acts as a reference for all fleet related issues. Finally, GFM is introducing a completely new specialized software package that is globally accessible – FleetWave. This is a software package used by many humanitarian agencies and allows for systematic entry of data on all areas of fleet management. Currently, the software is used to record rental charges, fuel consumption, maintenance expenses and insurance information. The

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						implementation of FleetWave is the foundation for moving forward with many of the other initiatives that are included in the 5-year plan. Field planning: GFM requests input to be submitted from field operations each year in October to indicate their vehicle needs. GFM proposes to improve this data collection and has provided guidance as an annex to the year end instructions due to be issued shortly to accompany the next data collection exercise for 2017 starting in October 2016. Inputs will be reviewed together with the Bureaux prior to requests being processed. Guidance and Terms of Reference will be shared with the field on the formal establishment of Transportation/Fleet Managers according to the size of the fleet.
2	The UNHCR Division of Emergency, Security and Supply should strengthen global fleet management performance monitoring and reporting by supplementing existing indicators with relevant key targets and performance indicators and by establishing a roll out plan for the implementation of standardized data collection tools.	Important	Yes	Chief of AFMS	End 2017	DESS is in agreement that Key Performance Indicators (KPI) are an important part of fleet management. The introduction of KPIs has to be considered carefully to ensure that they are relevant and drive the intended behavior. In addition, the data collection and reporting on the KPIs should be supported by software (where this is practical) and they should be measured frequently and be available for management as an operational tool, as opposed to Key Report Indicators (KRI) that are typically

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						reported at year-end or long after the event took place. A set of KPIs was agreed and has been included in the Fleet training and shared with all field locations. The KPIs will be further expanded as proposed. GFM is now working on including the KPI reports into FleetWave and rolling out FleetWave to all major field operations. The roll-out plan, which consists of the aforementioned fleet wave training, coupled with instructions on using the software which will enable the implementation of standardized data collection tools, will be completed (in all larger fleet operations) by the end of 2018.
3	The UNHCR Division of Emergency, Security and Supply should: (a) establish a clear pricing methodology for the different cost components of vehicle rental charges; (b) establish a process for decision making on rental charges; (c) implement an automated process for billing rental charges; and (d) revise the feasibility of including armored vehicles and trucks under the rental program, or define an alternative model for the supply of these vehicles to country operations.	Important	Yes	Chief of AFMS	2017	a) The GFM rentals are not financed commercially; instead the GFM scheme is based on an internal cost-recovery principle. The income from vehicle rent, sale of second hand vehicles and other charges are used to purchase new replacement vehicles, accessories and pay for GFM cost. The initial agreement made with the High Commissioner at the time when GFM was established entailed UNHCR providing limited funds for startup costs, and thereafter the GFM scheme should be self-financing. There are therefore no

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						profits from this scheme or funds that are utilized for any other purpose than to re-finance the GFM scheme.
						If over time a surplus is likely to be generated, this is counteracted through lower rental costs and decreased charges as well as enhanced services (please refer to see b) below.
						GFM has reviewed the pricing methodology and issued a new price list, which clearly specifies the different cost components and it is attached to this submission.
						b) Rental charges are reviewed annually based on projected rentals, income and costs and revisions proposed which are reviewed and approved by the Director DESS.
						c) GFM has been working with DFAM on an automated process for the billing of rental charges. This is envisaged to be implemented with the MSRP upgrade in 2017.
						d) A review is underway and will be completed by end 2016.
4	The UNHCR Division of Emergency, Security and Supply, in consultation with the Division of Financial and Administrative Management, should provide standard monitoring tools and	Important	Yes	Chief of AFMS	End 2017	a) The GFM implementation has enabled UNHCR to transition from an older light vehicle fleet to a newer fleet. This will enable UNHCR to substantially reduce

Management Response

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	guidance to UNHCR offices on: (a) the types of vehicle maintenance and repair services, respective standards, and key performance indicators that should be considered for local maintenance and repair contracts; and (b) recording, monitoring and reporting on maintenance and repair costs and consumables.					maintenance and repair costs. UNHCR will embark on a scheme whereby maintenance costs are reduced whenever possible and the aim of vehicle maintenance will be mainly to ensure operational effectiveness and safety. To achieve this, the aim is to replace the current heavy infrastructure supporting an older fleet, by a lighter structure that will have significantly lower cost. Managing spare parts and maintenance and repair facilities is not a core function in UNHCR, and the organization has no expertise in this respect. For these reasons, UNHCR is calling for a tender for global maintenance and repair services, which will contract these services out to one or more commercial partner(s). KPIs will be developed according to the type of service model and included in the contract. b) The chosen commercial partner(s) will be obliged to record all charges in FleetWave to receive payment for services.
5	The UNHCR Division of Emergency, Security and Supply should: (a) further assess the potential of FleetWave® in assisting UNHCR offices with in-built controls over monitoring of fuel consumption; and (b) develop and implement an action plan to fully address the systemic control weaknesses identified on fuel	Important	Yes	Chief of AFMS	First quarter 2017	a) FleetWave will be developed to provide the indicated services to the highest possible level, as and when they have been rolled out to the field. At present the FleetWave system is capable of capturing all fuel data and

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	management.					provide analytical reports on fuel consumption based on manual input, which is the norm amongst humanitarian organizations (and the majority of commercial entities).
						b) Action plan is under development
6	The UNHCR Division of Emergency, Security and Supply should develop and implement an action plan to: (a) finalize the policy framework for the global insurance scheme; (b) improve documentation on insurance claims files to adequately reflect decisions, respective approvals, and follow-up actions; and (c) improve internal insurance tracking systems to collect and consolidate information on organization-wide insurance coverages, costs, incidents, and payment of claims.	Important	Yes	Chief of AFMS	Second quarter 2017	a) As noted in the audit report an Administrative Instruction (AI) has been developed and will be issued shortly. b) and c) All relevant insurance information is now uploaded to FleetWave. The Global Vehicle Insurance Scheme (GVIS) is currently recording all important correspondence, decisions, approvals and actions taken concerning insurance claims. GFM is seeking further guidance to address this and reviewing the internal tracking system. Actions to address these points will then be shared for review by the Vehicle Steering Committee.
7	The UNHCR Division of Financial and Administrative Management, in consultation with the Division of Emergency, Security and Supply, should implement guidance, procedures and functionalities within the Managing for Systems Resources and People system for identifying all costs of property, plant and equipment subject to capitalization, and for recording these costs accurately in the asset	Important	Yes	Chief of AFMS	Q2 2017 when the MSRP upgrade is completed.	In 2016 GFM is manually recording the second leg of transport with the assistance of the Accounts and Financial Service (AFS). DESS has included in the business requirements for the MSRP upgrade that this information should be directly enterable from the transport purchase

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	register.					order into the MSRP system. DFAM will ensure that guidance and procedures adequately support capitalization of all relevant transport costs once the MSRP enhancement is operational.